

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 IO-14 ISO-00 SSO-00 NSCE-00 USIE-00

INRE-00 AGR-20 CEA-02 CIAE-00 COME-00 DODE-00 FRB-02

H-03 INR-10 INT-08 L-03 LAB-06 NSAE-00 NSC-10 PA-04

RSC-01 AID-20 CIEP-02 SS-20 STR-08 TAR-02 TRSE-00

PRS-01 SPC-03 OMB-01 DRC-01 /178 W

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O R 071742Z DEC 73

FM AMEMBASSY MADRID

TO SECSTATE WASHDC IMMEDIATE 7455

INFO USMISSION GENEVA

USMISSION USEC BRUSSELS

LIMITED OFFICIAL USE SECTION 1 OF 2 MADRID 7239

E.O. 11652: N/A

TAGS: EAGR, ETRD, SP

SUBJ: SOYBEANS: VARIABLE LEVIES; "REBATE" SYSTEM

REF: A) MADRID 6976; B) STATE 237249; C) MADRID 7155

1. IN AN ATTEMPT TO CLARIFY THE QUESTION OF WHETHER A VARIABLE LEVY OR "REBATE" SYSTEM IS APPLIED TO THE IMPORTS OF SOYBEANS INTO SPAIN, EMBOFFS HAD CONVERSATIONS WITH VIRGILIO NATE AND ALBERTO CERCOS, THE UNDERSECRETARY AND TECHNICAL SECRETARY GENERAL OF THE MINISTRY OF AGRICULTURE, RESPECTIVELY. CALLS WERE ALSO MADE ON RAFAEL AGUILAR AND JAIME REQUEIJO, THE DIRECTOR GENERAL FOR COMMERCIAL POLICY AND THE DIRECTOR GENERAL FOR IMPORT AND TARIFF POLICY OF THE MINISTRY OF COMMERCE. UNDER-SECRETARY OF THE FINANCE MINISTRY FRANCISCO FERNANDEZ ORDONEZ WAS ALSO CONSULTED ON THE SUBJECT PROBLEM. THE REPORT THAT FOLLOWS IS A SYNTHESIZATION OF THE INFORMATION ACQUIRED IN ALL OF THESE CONTACTS.

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2. DUE TO SUPPLY IRREGULARITIES AND THE U.S. EMBARGO ON SOYBEAN EXPORTS EARLIER THIS YEAR THE SPANISH GOVERNMENT UNDERTOOK TO IMPORT LARGE QUANTITIES OF SOYBEAN MEAL ON THE OPEN MARKET AT EXTREMELY HIGH PRICES. AS A RESULT A SPECIAL CREDIT WAS ISSUED BY THE SPANISH FINANCE MINISTRY TO COVER THE APPROXIMATELY 9 BILLION PESETAS INVOLVED IN DISTRIBUTING THIS MEAL TO THE CONSUMING INDUSTRY AT 20 PESETA/KILO. ALMOST IMMEDIATELY THEREAFTER THE WORLD MARKET PRICE FOR SOYBEANS DROPPED VERY RAPIDLY. MEANWHILE THE GOVERNMENT WAS GUARANTEEING A PRICE OF 20 PESETAS PER KILO FOR SOYBEAN MEAL TO THE LIVESTOCK FEED INDUSTRY. IT WAS FELT THAT THIS INDUSTRY COULD NOT AFFORD FROM THEIR OWN RESOURCES AT THAT TIME TO PURCHASE THE MEAL (OR BEANS) DIRECTLY FROM ABROAD AND THAT THE GOVERNMENT OPERATION TO FINANCE THIS WAS NECESSARY. IN THE SUBSEQUENT PERIOD, WITH THE LOWER WORLD MARKET PRICES FOR SOYBEANS, THE GOVERNMENT FELT IT NECESSARY TO TAKE STEPS TO RECOVER THE 9 BILLION PESETA DISBURSEMENT MADE EARLIER. TO THIS END, THERE WAS ESTABLISHED A MECHANISM TO OBTAIN REIMBURSEMENT FROM THE BENEFICIARIES OF THE 9 BILLION PESETA CREDIT, I.E. THE LIVESTOCK FEED INDUSTRY. THE REAL DEVICE BEING UTILIZED TO COLLECT THESE FUNDS IS ESSENTIALLY AS DESCRIBED IN MADRID TELEGRAM 6976. CURRENTLY, WE ARE TOLD THAT THE "REBATE" BEING PAID BY THE CRUSHERS TO SENPA IS 1.5 PESETAS PER KILO (20 MINUS 18.5). THE PROBLEM IS THAT WITH THE PRESENTLY RISING PRICES FOR SOYBEANS THIS PARTICULAR DEVICE BECOMES LESS AND LESS EFFECTIVE AS A FORM OF REIMBURSEMENT TO COVER THE COST OF THE LARGE-SCALE EARLIER PURCHASES AT 30 PESETAS PER KILO MADE ON THE WORLD MARKETS BY SENPA. (IT ALSO MAKES OUR COMPLAINT MORE MOOT.)

3. THE GOS OFFICIALS ALSO CONFIRMED THE FACT THAT THERE EXISTS THE "DERECHO REGULADOR" SYSTEM, WHICH WE HAVE REFERRED TO IN EARLIER CORRESPONDENCE AS THE VARIABLE LEVY. IT WAS POINTED OUT THAT, HOWEVER, THE "DERECHO REGULADOR" WHILE PUBLISHED IN THE OFFICIAL GAZETTE ("BOLETIN DEL ESTADO"), IS NOT APPLIED EVERY WEEK. THIS HAS BEEN NOTED IN PREVIOUS EMBASSY REPORTS AS BEING OF AN ON-AGAIN OFF-AGAIN NATURE. THE EMBASSY HAS ALSO REPORTED THAT THE CRUSHERS HAVE LIMITED OFFICIAL USE

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REPORTED THEY HAVE NEVER HAD TO PAY THE "DERECHO REGULADOR" LEVY. THE REASON FOR THIS WAS LOGICALLY EXPLAINED AS FOLLOWS. DUE TO IMPORT LICENSE APPLICATIONS THE MINISTRY OF COMMERCE IS FOREWARNED OF THE ARRIVAL DAYS OF SOYBEANS SHIPMENTS. WHEN IT IS KNOWN THAT A SHIPMENT OF SOYBEAN IS TO ARRIVE THE "DERECHO REGULADOR" IS SUPPRESSED AND THEREFORE DOES NOT APPEAR IN THAT WEEK'S BOLETIN DEL ESTADO. ON THE OTHER HAND WHEN IT IS KNOWN

THAT NO SHIPMENTS ARE EXPECTED TO ARRIVE, THE BOLETIN CARRIES THE THEORETICAL "DERECHO REGULADOR" THAT WOULD BE APPLIED IF SHIPMENTS WERE TO BE RECEIVED. THE REASON FOR THIS MEASURE IS TO PROTECT THOSE MEMBERS OF THE INDUSTRY AGREEMENT FROM INDEPENDENT SPECULATORS WHO MIGHT TAKE ADVANTAGE OF THE COMPLETE SUPPRESSION OF THE "DERECHO REGULADOR" FEES AND BE ABLE TO UNDERSSELL THE COOPERATING MEMBERS OF THE INDUSTRY. THE NET RESULT OF ALL THIS IS THAT THE GOS CUSTOMS AUTHORITIES HAVE NOT COLLECTED ONE PESETA BY REASON OF THE "DERECHO REGULADOR" OR VARIABLE LEVY SYSTEM THAT WOULD APPEAR AT TIMES TO BE IN PLACE IN THE SPANISH CUSTOMS STRUCTURE.

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4. THERE IS A SMALL (ABOUT 30,000 TONS ANNUALLY) DOMESTIC PRODUCTION OF SOYBEANS IN SPAIN. IF LOCAL SOYBEAN PRODUCERS WERE ABLE TO PRICE THEIR PRODUCT, INCLUDING THE CRUSHERS FEES, BELOW THE 20 PESETA PER KILO GUARANTEED PRICE FOR MEAL, THEY TOO WOULD BE OBLIGATED TO PAY TO SENPA THE DIFFERENCE. HOWEVER, DOMESTIC SOYBEANS ARE PRODUCED AT A MUCH HIGHER COST THAN THE 20 PESETA PER KILO

GUARANTEED MEAL PRICE WOULD INDICATE. THEREFORE, THIS PAY-BACK ARRANGEMENT TO SENPA IS NON-DISCRIMINATORY EVEN THOUGH AT PRESENT ONLY IN A THEORETICAL SENSE AS THERE HAVE BEEN NO ACTUAL PAYMENTS FROM DOMESTIC PRODUCERS AS YET DUE TO THE PRICING STRUCTURE.

5. ALL THE INFORMANTS CONSIDERED THE DEVICE USED TO PAY-BACK TO THE GOVERNMENT THE 9 BILLION PESETA EXPENDITURE AS A TRANSITORY ONE. THERE SEEMS TO BE RESIGNATION TO THE FACT THAT ALL OF THE 9 BILLION PESETAS WILL NOT BE RECOVERED. HOWEVER, THERE IS A DEFINITE DESIRE TO MAKE PARTIAL RECOVERY. EXACTLY HOW MUCH WILL BE ABLE LIMITED OFFICIAL USE

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TO BE ABSORBED BY THE GOVERNMENT AS A LOSS ON THIS TRANSACTION DEPENDS UPON THE BUDGETARY AUTHORITIES IN THE MINISTRY OF FINANCE. THE MATTER IS CURRENTLY UNDER STUDY BY MINISTRY OF FINANCE OFFICIALS TO DETERMINE WHETHER THERE IS SUFFICIENT ROOM IN THE BUDGET TO PERMIT A SUPPLEMENTAL ALLOCATION TO COVER THE LOSS. SINCE BUDGETARY PRACTICE IN SPAIN CURRENTLY IS TO RESTRICT TO THE GREATEST POSSIBLE DEGREE ANY EXPANSION IN ORDER TO AVOID THE RESULTING INFLATIONARY EFFECTS IT WILL PROBABLY NECESSITATE A TRADE OFF BETWEEN COVERING THE SOYBEAN PURCHASE AND SOME OTHER PROGRAM ALREADY ALLOCATED IN THE BUDGET. IT IS EXPECTED THAT THE FINANCE MINISTRY WILL PROVIDE THE EMBASSY WITH FURTHER INFORMATION ON THIS POSSIBILITY NEXT WEEK.

6. THE AGRICULTURE MINISTRY REPRESENTATIVES THOUGHT THAT THE PROBABILITY WAS THAT THE MATTER WOULD BE RESOLVED BY THE 1ST OF FEBRUARY 1974 WHEN BOTH THE REBATE AND THE ALTERNATIVE "DERECHO REGULADOR" OR VARIABLE LEVY WILL BE NO LONGER NECESSARY FOR SOYBEAN IMPORTS. THEY FEEL CERTAIN THAT THE FINANCE MINISTRY WILL FIND THE MONEY NECESSARY TO MAKE UP THE DIFFERENCE AND COVER THE LOSS ON THE SOYBEAN TRADING OPERATION. THE COMMERCE MINISTRY OFFICIALS WERE A BIT MORE VAGUE AND SAID THAT SOME TIME DURING THE FIRST QUARTER OF 1974 THE SAME THING WOULD PROBABLY HAPPEN.

6. ALL INFORMANTS WERE QUITE CONSISTENT ON THE POINT THAT THEIR INTERNAL POLICIES ON THIS ISSUE WERE REALLY IRRELEVANT TO U.S. INTERESTS. THEIR REASON FOR THIS IS THAT THERE HAS BEEN AND WILL BE NO ALTERATION WHATSOEVER IN THE VOLUME OF IMPORTS OF SOYBEANS FROM THE U.S. DERIVING FROM THE PRACTICES DESCRIBED ABOVE. IT IS THEREFORE DIFFICULT FOR THEM TO UNDERSTAND WHY THE U.S. SEEKS TO MAKE AN ISSUE OF THIS MATTER.

7. IN SUMMARY, THERE IS AN OPERATIVE "REBATE" SYSTEM AND A

THEORETICAL BUT INOPERATIVE VARIABLE LEVY. THE MECHANISM IS
OF A TRANSITORY NATURE ONLY AND, IN THE GOS VIEW,
HAS NO PROTECTIVE FEATURES. IT WILL DISAPPEAR AS SOON AS
THE 9 BILLION PESETA CREDIT IS TOTALLY RECOVERED OR A
BUDGETARY ALLOCATION IS MADE TO COVER THE LOSS. IN ANY
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EVENT, SOYBEAN EXPORTS TO SPAIN ARE ALLEGED TO BE UNAFFECTED
BY THE OPERATIVE SYSTEM. THE GOS INTENTION IS TO PHASE OUT
THE PRACTICE AS SOON AS POSSIBLE DURING EARLY 1974.
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